SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會

Frequently Asked Questions on Post Authorization Compliance Issues of SFC-authorized Unit Trusts and Mutual Funds

This FAQ is prepared by the Investment Products Division and aims to provide basic information to market practitioners concerning the post authorization compliance issues of SFC-authorized unit trusts and mutual funds. Applicants are encouraged to contact the Investment Products Division if in doubt on any specific issues arising from the application/interpretation of the Code on Unit Trusts and Mutual Funds effective on 1 January 2019 ("UT Code"). Please note that each application for authorization is considered on a case-by-case basis.

For the purpose of this FAQ, UCITS funds means (i) Undertakings for Collective Investment in Transferable Securities (UCITS) domiciled in France, Luxembourg, Ireland and the Netherlands, and (ii) collective investment schemes domiciled in the United Kingdom authorized as UK UCITS.

The information set out below is not meant to be exhaustive. This FAQ may be updated and revised from time to time. This FAQ is only for general reference. Compliance with all the requirements in this FAQ does not necessarily mean applications for the approval of post authorization changes (including scheme changes, termination, merger and withdrawal of authorization) and authorization of revised offering documents for SFC-authorized funds will be accepted or approval/authorization will be granted. The SFC reserves the rights to exercise all powers conferred under the law.

Notes: (1) For ease of reference, collective investment schemes that are generally known as unit trusts or mutual funds are referred to as "funds" in the following FAQ.

(2) Unless otherwise specified, the term "ETF" used in this FAQ shall cover SFC-authorized passive ETF, active ETF and listed unit/share class of unlisted fund.

Section 1: FAQ in respect of the Revamped Post Authorization Process

	Question	Answer
1. – 15. and 18. – 21.	These FAQs have been removed.	Please refer to Frequently Asked Questions on Revamped Post Authorization Process of SFC-authorized Unit Trusts and Mutual Funds.
16. – 17.	These FAQs have been removed.	Please refer to Questions 8A and 9A under Section 2 of this FAQ

Section 2 – Other post-authorization compliance issues

	Question	Answer
1.	Once a fund is authorized by the SFC, is it required to comply with any on-going requirements?	Yes. An SFC-authorized fund has to comply with the post-authorization requirements as set out in Chapters 10 and 11 of the UT Code. To facilitate better compliance by SFC-authorized funds, the following forms are provided on the SFC website: ▪ *Pricing Errors Forms* – information to be supplied to the SFC upon the discovery of pricing errors ▪ *Material Breaches Forms* – information to be supplied to the SFC upon the discovery of material breaches ▪ *Merger / Restructuring / Termination Form* – information to be supplied to the SFC for proposed merger / restructuring / termination of funds ▪ *Money Market Funds Form* – information to be supplied to the SFC by money market funds
2.	This FAQ has been removed.	Please refer to Question 2 of Frequently Asked Questions on Revamped Post Authorization Process of SFC-authorized Unit Trusts and Mutual Funds.
2A.	What steps should a management company take when they issue notice(s) which contain(s) information that affects the disclosure in the offering documents of SFC-authorized fund(s)?	SFC-authorized funds must issue an up-to-date offering document, which should contain information necessary for investors to be able to make an informed judgement of the investment proposed to them. Where a management company issues notice(s) which contain(s) information that affects the disclosure in the offering document of SFC-authorized fund(s), the management company should update the offering document with such information as soon as reasonably practicable. In the event that the offering document is yet to be updated, the offering document is expected to be accompanied by such notice(s). As such, the management company should make appropriate arrangements with its distributors and the Hong Kong Representative (if applicable) to provide the offering document together with copies of the relevant notice(s) to investors.

	Question	Answer
3.	Under what circumstances can dealings in an SFC-authorized fund be suspended?	Suspension of dealings may be provided for by management company in consultation with the trustee/custodian, having regard to the best interests of holders. Suspension of dealings is one of the liquidity risk management tools and practices to delay and/or limit redemption. Management company should at all times exercise due skill, care and diligence in managing the liquidity of schemes under their management. Management company must ensure fair treatment to investors in handling subscription and redemption requests during the suspension period, and that all such requests are/will be handled in accordance with the constitutive documents and offering documents of the funds. Management companies should comply with their obligations and the applicable requirements set out in the "Circular to management companies of SFC-authorized funds on liquidity risk management" dated 4 July 2016. The management company must regularly review any prolonged suspension of dealings and take all necessary steps to resume normal operations as soon as practicable.
3A.	This FAQ is obsolete and has been removed.	

	Question	Answer
3A1.	What are the notification requirements regarding the suspension of dealings of an SFC-authorized fund?	Pursuant to paragraph 10.7 of the UT Code, the management company or Hong Kong representative must immediately notify the SFC if dealing in units / shares ceases or is suspended. The SFC expects investors to be notified on a timely basis. The fact that dealing is suspended must be published immediately following such decision and at least once a month during the period of suspension in an appropriate manner. Given that the suspension of dealings may limit investors' right to freely redeem their shares or units on any dealing day as stipulated in a scheme's offering document, the SFC is of the view that it is an important piece of information for investors and must therefore be published in written form via appropriate means such as newspapers or websites. The suspension notice to holders does not require the SFC's prior approval. However, the notice should be filed with the SFC immediately after its issuance. The SFC should be informed of how and when the notice was published. The SFC may also request submission(s) of records of the deliberations, justifications and decisions of the suspension. In the case of a prolonged suspension, the requirement to publish, at least once a month via appropriate means, the fact that dealing is suspended can be complied with by issuing notices (in printed and electronic forms) or by posting prominent message(s) on the fund / management company's website with a hyperlink to the relevant suspension notice published on the website, as permitted by the fund's constitutive documents and offering documents.
3A2.	What information is required to be included in a suspension notice to investors?	As a minimum, a suspension notice should contain: ▪ The legal basis for suspension, i.e. reference to the provisions in the constitutive documents; ▪ Reasons for suspension; ▪ A statement that the trustee/custodian has been consulted and where relevant, consent / no objection has been obtained; ▪ Effective date and where appropriate, the duration of suspension; ▪ Impact on the investors regarding redemption arrangements;

	Question	Answer
		▪ Details of a Hong Kong contact for enquiries; and ▪ Date of publication of the notice. Where investors have the option to withdraw the subscription or redemption requests made during the period of suspension, the management company should inform investors of such option in the suspension notice. A notice should be prepared in both the Chinese and English languages unless a waiver to 6.2 of the UT Code has previously been granted.
3A3.	Regarding resumption of dealings, when will a resumption notice be required to be published?	Pursuant to 10.6 of the UT Code, the management company must regularly review any prolonged suspension of dealings and take all necessary steps to resume normal operations as soon as practicable. Resumption of dealings should take place as soon as practicable, having regard to the interests of holders. A decision to lift suspension should be notified to the SFC immediately. Where the notice of suspension does not specify the duration of suspension, a resumption notice should be published in same manner in which the suspension notice has been published. The resumption notice does not require the SFC's prior approval. However, it should be filed with the SFC immediately after its issuance. The SFC should be informed of where the notice was published and the date of publication. As a minimum, a resumption notice should contain the effective date of the lifting of suspension and details of a Hong Kong contact for enquiries.
3B.	What should the fund manager of an SFC-authorized fund note if there is a suspension of trading on the securities market(s) on which all or a substantial part of the investments of the fund are traded and such suspension continues until the close of such market(s)	Pursuant to the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products, fund managers are required to manage SFC-authorized funds with due skill, care and diligence. *Issues to consider*

	Question	Answer
	(“Market Suspension”)?	A fund manager should critically assess the potential impact of Market Suspension on SFC-authorized funds under its management and the investors of the funds, and should ensure that it has in place appropriate policies and procedures (including contingency plans) to address such impact in the event of Market Suspension. In particular, the issues that a fund manager should consider if a Market Suspension is triggered include, without limitation: ▪ how the net asset value of the fund(s) should be calculated; ▪ if/how any fair valuation adjustments should be made[1]; ▪ how to ensure: a. strict compliance with the principle of forward pricing[2]; b. all investors are treated fairly and that existing investors’ interests are protected and not diluted as much as possible; and c. the policies and procedures to be put in place (and any revisions thereto) are done in the best interests of the fund; ▪ how the dealing and settlement arrangements will be affected, such as: a. whether the day on which Market Suspension occurs is still a dealing day for the fund; b. if so, whether the fund manager will suspend dealing on that day or make any changes to the cut-off time for accepting subscription and redemption orders; and if it is the latter case, i. whether the subscription and redemption orders received after the

[1] Fund managers are reminded to comply with the requirements set out in the SFC Circular to Management Companies and Trustees/Custodians of SFC-authorized Funds Relating to Fair Valuation of Fund Assets dated 20 July 2015 (as amended from time to time).

[2] Forward pricing is a fundamental principle in the regulation of SFC-authorized funds. Forward pricing ensures that incoming, continuing and outgoing investors are treated equitably such that subscription and redemptions of fund units/shares are effected on the basis of an unknown/forward price only in order to minimise the risks related to late trading and market timing. In line with such principle, SFC-authorized funds that are affected by Market Suspension are generally expected not to accept subscription and redemption orders received after the occurrence of Market Suspension and not to process such orders on the same day. Otherwise, certain investors may be able to take advantage of knowledge about development in financial markets occurred after the Market Suspension is triggered and exploit fund unit/share prices that are based on the last traded prices of securities in the fund’s portfolio, when the Market Suspension is triggered.

	Question	Answer
		cut-off time on that day will be carried forward to the next dealing day; and ii. whether investors can cancel the subscription and redemption orders received after the cut-off time on that day; and c. the arrangement for prolonged Market Suspension; and ▪ if any revisions should be made to the existing dealing and settlement procedures and operational guidelines of the fund after considering the above. The fund manager should consult the trustee to address these issues where appropriate. Additionally, fund managers of SFC-authorized ETFs should consider the following if a Market Suspension is triggered: ▪ the arrangement for partially filled orders; ▪ if secondary trading should be suspended; and ▪ whether substantial trading premium/discount would arise and how it should be addressed. The fund manager should discuss with the relevant participating dealers as necessary when putting in place the relevant arrangements relating to Market Suspension. The fund manager should also remind its distributors to treat all investors dealing through such distributor in a fair and consistent manner.
3C.	What disclosure issues should a fund manager consider for the implementation of any policies and procedures in addressing the potential impact of Market Suspension on an SFC-authorized fund? In addition, would prior notice to investors and prior approval from the SFC be required regarding the changes made	SFC-authorized funds must issue an up-to-date offering document, which should contain the information necessary for investors to be able to make an informed judgement of the investment proposed to them. On implementation of any policies and procedures in addressing the potential impact of Market Suspension on an SFC-authorized fund, a fund manager should consider whether the current disclosures and risk warnings on Market

	Question	Answer
	as a result of such implementation?	Suspension and the associated dealing and settlement arrangements in the fund offering documents require further update. Relevant changes to the dealing and settlement arrangements of an SFC-authorized fund to comply with the applicable legal and/or regulatory requirements would generally not be regarded as material changes in dealing arrangements under 11.1(c)(iii) of the UT Code provided that the Overriding Requirements (as defined in FAQ9) can be satisfied, and thus do not require the SFC's prior approval in accordance with 11.1B of the UT Code. Pursuant to 11.1B and 11.2 of the UT Code, the SFC would normally expect the fund manager to inform existing holders of the fund of such changes as soon as reasonably practicable and where appropriate, the notices should prominently remind investors that their distributors may have different dealing and settlement arrangements, and that investors should check with their distributors on the relevant arrangements. No further authorization of the revised offering documents is required to be obtained from the SFC to the extent it solely reflects such changes. Fund managers are reminded to comply with the relevant filing requirements set out in FAQs 9 and 10.
4.	If a pricing error has occurred in relation to an SFC-authorized UCITS fund, what form should the manager submit to inform the SFC of the pricing error?	All SFC-authorized schemes are required to comply with paragraphs 10.2, 10.2A and 10.2B of the UT Code. In view of UCITS funds being subject to home regulators' supervision, we have adopted a streamlined process for the pricing errors of UCITS funds. Managers of UCITS funds should report the funds' pricing errors by submitting the completed Ongoing Compliance Form for Filing of Pricing Errors (Pricing Errors Filing Form) to the SFC. The Pricing Errors Filing Form provides flexibility for managers to report the pricing errors of multiple funds in a single form, if the nature of the pricing errors (undervaluation / overvaluation) and other key facts and circumstances (such as the magnitude, affected period, underlying reason(s) and responsible party(ies))

	Question	Answer
		are largely the same for all such pricing errors. Where no Hong Kong investors invest in the unit(s) / share class(es) of the UCITS fund(s) which is/are affected by the pricing error during the affected period, managers are not required to inform the SFC of the pricing error.
4A.	The Pricing Errors Filing Form consists of two parts (Part A and Part B). When does the manager of a UCITS fund need to submit the two parts respectively?	Where a pricing error falling under paragraph 10.2A of the UT Code has occurred, the manager of the relevant UCITS fund should immediately report to the SFC upon the discovery of the error, by completing and submitting Part A of the Pricing Errors Filing Form to the SFC. Subsequently, the manager of the relevant UCITS fund is required to report to the SFC further details of the pricing error, including the corresponding remedial measures (including all of the required compensation arrangements) and the reason(s) for the pricing error. The manager of the relevant UCITS fund is expected to do so by completing and submitting Part B of the Pricing Errors Filing Form to the SFC once the following parties do not have any comments on the pricing error and the corresponding remedial measures (including all of the required compensation arrangements) taken or to be taken (and to the extent that any such party has any comment(s), all such comment(s) have been properly addressed): (i) the depositary; (ii) to the extent that compensation to affected Hong Kong investor(s) is required and the compensation methodology and calculation are required to be reviewed by an independent auditor under the laws and regulations of the fund's home jurisdiction, the independent auditor; and (iii) to the extent that the pricing error is required to be notified to the home regulator of the UCITS fund under the laws and regulations of the fund's home jurisdiction, the home regulator. The manager of the relevant UCITS fund will be required to provide certain confirmations, including a confirmation that paragraphs 10.2, 10.2A and 10.2B of the UT Code have been and will be complied with at all times, as provided under the Pricing Errors Filing Form.

	Question	Answer
4B.	How does the reporting threshold of pricing errors set out in paragraph 10.2A (and its Note) of the UT Code apply where SFC-authorized funds have multiple simultaneous pricing errors with different root causes?	Pursuant to paragraph 10.2A of the UT Code, any pricing errors of SFC-authorized funds resulting in an incorrect price of 0.5% or more of the net asset value (NAV) per unit/share must be reported to the SFC immediately. Managers of SFC-authorized funds must report to the SFC all simultaneous pricing errors of a fund, including where the errors have different root causes, if their aggregate impact results in an incorrect price of 0.5% or more of the NAV per unit/share on any dealing day.
4C.	What are the compensation requirements for the pricing errors of SFC-authorized funds falling under Note to 10.2A of the UT Code?	All investor(s) and/or SFC-authorized fund(s) affected by the pricing errors falling under paragraph 10.2A (and its Note) of the UT Code are expected to be compensated pursuant to the requirements set out in paragraph 10.2B of the UT Code. Nevertheless, the SFC will review such pricing error(s) holistically by taking into account all the relevant circumstances (eg, the duration, reasons and materiality of the pricing error, and justifications by the management company) to ascertain the appropriate compensation arrangements and other remedial measures (if any) on a case-by-case basis.
4D.	What are the compensation requirements for the pricing errors of SFC-authorized funds which are offered both in and outside of Hong Kong?	Managers of SFC-authorized funds should comply with all applicable local and overseas rules and regulations governing the compensation arrangements for pricing errors (including paragraph 10.2B of the UT Code), and ensure all affected investors receive fair treatment regardless of their location.
4E.	If a material breach has occurred in relation to an SFC-authorized UCITS fund, what form should the manager submit to inform the SFC of the material breach?	Pursuant to paragraph 4.1(c) of the Overarching Principles Section of the Handbook, management companies of all SFC-authorized schemes are required to inform the SFC promptly of any material breaches. Since UCITS funds are subject to their home regulators' supervision, we have adopted the following streamlined process for such funds. • Managers of UCITS funds should inform the SFC of material breaches by submitting the completed Ongoing Compliance Form for Filing of Material Breach(es) (Breaches Filing Form). The Breaches Filing Form is only applicable to:

	Question	Answer
		(i) breach(es) of investment restriction(s) under the fund's home jurisdiction's laws and regulations; and/or (ii) breach(es) of other restriction(s) or requirement(s) that is/are subject to the fund's home regulator's supervision. • Nevertheless, the following breaches should still be reported to the SFC by submitting the completed Ongoing Compliance Form for Reporting of Material Breach(es) (Breaches Reporting Form): (i) breach(es) of provisions under the UT Code that are applicable to UCITS funds (eg, the fund's net derivative exposure); and/or (ii) breach(es) of other applicable SFC-specific disclosure requirements (eg, investments in certain specific asset classes, risk disclosures, disclosures of ongoing charges and past performance information, etc.). • The Breaches Filing Form and Breaches Reporting Form allow managers to file or report breaches of multiple funds in a single form, if the nature of the breaches (eg, the laws and regulations being breached) and other key facts and circumstances (eg, the affected period, underlying reason(s) and responsible party(ies)) are largely the same. • Where no Hong Kong investors invest in the UCITS fund during the affected period, managers are not required to file or report the material breaches of the UCITS fund to the SFC.
4F.	The Breaches Filing Form consists of two parts (Part A and Part B). When does the manager of a UCITS fund need to submit the two parts respectively?	Where a breach falling under the streamlined process has occurred, the manager of the relevant UCITS fund should promptly inform the SFC upon the discovery of the breach, by completing and submitting Part A of the Breaches Filing Form to the SFC. Subsequently, the manager of the relevant UCITS fund is required to file to the SFC further details of the breach, including the corresponding remedial measures (including all of the required compensation arrangements) and the reason(s) for the breach. The manager is expected to do so by completing and submitting Part

	Question	Answer
		B of the Breaches Filing Form to the SFC once the following parties do not have any comments on the breach and the corresponding remedial measures (including all of the required compensation arrangements) taken or to be taken (and to the extent that any such party has any comment(s), all such comment(s) have been properly addressed): (i) the depositary; (ii) to the extent that compensation to affected Hong Kong investor(s) is required and the compensation methodology and calculation are required to be reviewed by an independent auditor under the laws and regulations of the fund's home jurisdiction, the independent auditor; and (iii) the home regulator. The manager of the relevant UCITS fund will also be required to provide certain confirmations as provided under the Breaches Filing Form.
4G.	What should the manager of a UCITS fund do when an event with a material adverse effect arises from a breach or pricing error of an SFC-authorized UCITS fund?	Managers are reminded to inform the SFC promptly of any event which has a material adverse effect on an SFC-authorized fund or its investors (in the case of a UCITS fund, such as the withdrawal or suspension of authorization or approval for public offering in its home jurisdiction, and the imposition of any conditions or restrictions, changes in any authorization or approval conditions by the home regulator, etc.). This applies at all times, including when an event with a material adverse effect arises from a breach or pricing error of an SFC-authorized UCITS fund subsequent to the submission of the corresponding Breaches Filing Form and/or Pricing Errors Filing Form (as the case may be). The SFC may require the submission of further information and documents as it deems appropriate in respect of any breaches and/or pricing errors of any SFC-authorized funds (including UCITS funds) on a case-by-case basis.
5.	A fund may change its investment policy or strategy or restrictions on the use of derivatives. Would prior approval from the SFC and prior notice to investors be required regarding such change?	Below are examples where prior approval from the SFC and advance notification to investors (generally expected to be one month's prior notice) would be required pursuant to paragraph 11.1(c)(i) of the UT Code. ▪ The fund's net derivative exposure will change from not more than 50% of

	Question	Answer
		the fund's NAV to exceeding 50% after the scheme change. ▪ The fund's net derivative exposure will change from not more than 100% of the fund's NAV to exceeding 100% after the scheme change. The SFC's prior approval is not required, but advance notification (generally of one month) is expected to be given to investors if a fund proposes to: • reduce the extent of the use of derivatives; or • effect a change to enable the fund to use derivatives for investment or other purposes where the net derivative exposure will be up to 50% of the fund's NAV (from (i) using derivatives for hedging purposes only or (ii) not using derivatives for any purposes) (or vice versa. The term "net derivative exposure" has the meaning in paragraph 7.26 of the UT Code.
6.	Under 11.5 of the UT Code, notices for mergers should be submitted to the SFC for prior approval. Do I need to send notice to investors of the "receiving fund" (i.e. the absorbing fund in a merger) informing them of the merger and submit such notice for the SFC's prior approval?	For the purpose of 11.5 of the UT Code, notices are not required to be given to investors of the "receiving fund" (i.e. the absorbing fund) in a merger and you are not required to submit such notices to the SFC for prior approval. For the avoidance of doubt, the SFC requires notices to be sent to investors of the "merging fund" (i.e. the absorbed fund in a merger) in a merger and such notices should be submitted to the SFC for prior approval.
7.	What is the expectation on the notice requirements to investors in respect of changes of the controlling shareholder(s) of a key operator of a scheme[Note]? (Note: "Key operators of a scheme" refers to management company, trustee/custodian, investment delegates or Hong Kong representative of a scheme for the purpose of the FAQs herein.)	11.2 of the UT Code sets out the notice requirements to investors in respect of matters relating to a scheme. For changes in the ultimate controlling shareholder(s) of the key operators of a scheme, although SFC's prior approval is not required under 11.1 of the UT Code, it is normally expected that one month's prior written notice should be provided to the investors unless otherwise agreed by the SFC.

	Question	Answer
8.	This FAQ is obsolete and has been removed.	
8A.	Will changes made to the offering documents which are consequential to the proposed changes subject to SFC's prior approval under 11.1 of the UT Code ("11.1 Scheme Change(s)") require the SFC's prior approval?	Where the 11.1 Scheme Change(s) are subject to the SFC's prior approval, any consequential amendments to the offering documents (e.g. new risk factor(s) due to change in investment policy and/or strategy) will also be subject to the SFC's prior approval except for the related administrative changes (e.g. update on the address of the newly appointed management company in the offering documents, change of logo of the management company provided such change is not misleading to investors). As such, applicant should also properly set out the consequential changes to the relevant 11.1 Scheme Change(s) in a clear and succinct manner in the relevant application form for authorization of the revised offering documents.
9.	Does (i) an amendment to a scheme in the nature of clarifications or enhancement of its investment objectives, policies and restrictions; (ii) a change or an extension of a scheme's dealing deadline and/or frequency; (iii) a reduction of a scheme's fees and charges from the current level; or (iv) adoption of additional trading counter(s) for an ETF, require prior approval from the SFC pursuant to 11.1(c) of the UT Code? Would prior notice be required to be provided to the investors regarding the amendments and/or changes?	Scheme changes which can satisfy the Overriding Requirements (as defined below) would not generally be regarded as material changes for the purposes of 11.1(c) of the UT Code. Set out below are the overriding principles and requirements ("Overriding Requirements") that must be satisfied in order for any changes to be not regarded as material changes for the purposes of 11.1(c) of the UT Code and do not require the SFC's prior approval: • the changes do not amount to a material change to the scheme; • there will be no material change or increase in the overall risk profile of the scheme following the changes; and • the changes do not have a material adverse impact on holders' rights or interests (including changes that may limit holders' ability in exercising their rights). Below are some illustrative examples: *a. Changes in investment objective, policies and restrictions* i. elaboration on the primary/principal investment objective, strategy, or policy of a scheme by way of a specified investment threshold/limit and the

	Question	Answer
		removal of and/or amendments to such threshold/limit, based on the existing investment objective, strategy or policy of the scheme as disclosed in the offering documents; ii. elaboration on the ancillary investment strategy, objective or policy of a scheme by way of a specified investment threshold/limit and the removal of and/or amendments to such threshold/limit, based on the existing investment objective, strategy or policy of the scheme as disclosed in the offering documents; iii. variation (including addition or removal) of examples of underlying assets or investment areas in which a scheme may invest, based on the existing investment objective, strategy or policy of the scheme as disclosed in the offering documents; iv. elaboration on or minor amendments to the internal stock selection method/process within the scope of a scheme's existing investment objective, strategy or policy as disclosed in the offering documents; v. elaboration on the existing investment objective, strategy, policy or restriction of a scheme as required by other regulators and/or as a result of the scheme's compliance with applicable legal and/or regulatory requirements; and vi. adoption of a physical replication strategy by a synthetic passive ETF[3]. *b. Changes in fees and charges* i. increase in or reduction of initial charges/subscription fees payable by investors;

[3] For the avoidance of doubt, the adoption of a synthetic replication strategy (in part or in full) by a physical passive ETF will generally be regarded as a change falling under 11.1(c)(i) of the UT Code as there is usually a material change and/or an increase in the overall risk profile of such ETF following such change.

	Question	Answer
		ii. change in the minimum initial subscription amount and/or subsequent subscription amount (unless it is due to any regulatory requirement or controls under any applicable laws and regulations); and iii. removal of fee item(s) payable by the investors and/or the scheme. *c. Changes in dealing arrangements or distribution policy* i. change of frequency and/or rate of dividends payment; ii. change of distribution policy from paying dividend out of capital / effectively out of capital to no longer paying dividend out of / effectively out of capital (i.e. solely out of net distributable income); iii. extension of dealing deadline and/or increase in dealing frequency (e.g. from monthly or weekly to daily) of a scheme, which are beneficial to investors, provided that in the former case, the extended deadline is still well before the pricing/ NAV cut off time to ensure forward pricing in accordance with the provisions of its offering and constitutive documents and the provisions of Chapter 6 of the UT Code; iv. changes in settlement/payment periods for the subscription or redemption of units/shares of a scheme, which are beneficial to investors or are necessary to comply with regulatory, fiscal or other statutory or official requirements, provided that the provisions of Chapter 6 of the UT Code can be complied with; v. adoption of additional trading counter(s) for an ETF; and vi. changes in primary market dealing arrangement of an ETF to which all participating dealers of the ETF have agreed. For (i) any changes in the frequency, and/or rate of dividends payments of a scheme and change of distribution policy from distribution out of / effectively out of capital to solely out of net distributable income or (ii) any changes which shorten the settlement period for subscription money payable by investors or extend the payment period for redemption moneys receivable by investors, the SFC would normally expect that at least one month's prior notice should be given to existing holders of the scheme in respect of the change pursuant to 11.1B and 11.2 of the UT Code. In respect of the change of distribution policy, the

	Question	Answer
		management company should ensure the notice containing information regarding the reasons for the change, implication of the change on the fund, share class and/or investors (e.g. any impact on the frequency of dividend payment and/or rate of dividend payment etc.) and the timeframe which the historical information on the dividend compositions will continue to be available to investors as considered appropriate by the management company to enhance the transparency of the fund's distribution policy. Unless otherwise specified, the SFC would expect the management company to inform existing holders of the scheme as soon as reasonably practicable. As part of the filing of the scheme change, the management company is required to file the "Filing Form for Notice of Scheme Change(s) falling within 11.B of the Code on Unit Trusts and Mutual Funds and Do Not Require SFC's Prior Approval". These changes will be subject to post-vetting by the SFC.
9A.	What types of scheme change(s) will fall under 11.1B of the UT Code which are not subject to SFC's prior approval?	Scheme changes which do not fall under 11.1 of the UT Code will be classified as change(s) falling within 11.1B of the UT Code not requiring SFC's prior approval ("11.1B Changes"). Set out below are some examples of 11.1B Changes: • changes of operators which are not key operators of the fund as referred to in 11.1(b) of the UT Code; • administrative changes e.g. change in address of the key operators, addition and resignation of directors of the scheme; • changes to punctuation or grammar; and • correction of a manifest error. Unless otherwise specified, the management company should inform existing holders of the scheme as soon as reasonably practicable for 11.1B Changes pursuant to Note(3) to 11.2 of the UT Code in order to enable them to appraise the position of the scheme.

	Question	Answer
		As part of the filing of the scheme change, the management company is required to file the "Filing Form for Notice of Scheme Change(s) falling within 11.1B of the Code on Unit Trusts and Mutual Funds and Do Not Require SFC's Prior Approval". 11.1B Changes will be subject to post vetting by the SFC.
10.	Will authorization be required to be obtained from the SFC prior to the issuance of the revised offering document of an SFC-authorized fund which solely reflects the 11.1B Changes?	No further authorization of the revised offering document of an existing SFC-authorized fund is required to be obtained from the SFC to the extent it solely reflects the 11.1B Changes. Nevertheless, the above revised offering document should be filed with the SFC pursuant to 11.1B of the UT Code together with a properly completed "Filing Form for Revised Offering Documents that Incorporate Changes Falling within 11.1B of the Code on Unit Trusts and Mutual Funds (UT Code) and Do Not Required SFC's Prior Approval".
11.	Do changes to the constitutive documents of an existing SFC-authorized fund which (a) solely reflect 11.1B Changes and/or (b) is a UCITS, require prior approval from the SFC pursuant to 11.1(a) of the UT Code?	Pursuant to 11.1(a) of the UT Code, prior approval is not required from the SFC in respect of changes to constitutive documents of a scheme reflecting changes which do not require prior approval from the SFC. Further, the SFC is prepared to adopt a streamlined approach in respect of certain amendments to constitutive documents of SFC-authorized funds which are UCITS ("UCITS CD Amendments"). Under the streamlined approach, prior approval is not required from the SFC in respect of UCITS CD Amendments under 11.1(a) of the UT Code. Set out below are overriding principles and requirements that need to be satisfied in order for any amendments to constitutive documents to be UCITS CD Amendments: • The management company confirms that the constitutive documents of the scheme(s) have complied with all applicable home jurisdiction's laws and regulations and home regulator's requirements and have complied with 9.10 of the UT Code; and • Such constitutive documents are the latest version that have been submitted to / filed with the home regulator; and in addition, the scheme(s) has / have also complied with D12 of Appendix D to the UT Code regarding connected

	Question	Answer
		party transactions.
11A.	Do scheme changes involving (a) an appointment of investment delegate(s) which are currently managing other existing SFC-authorized fund(s) and (b) the removal of investment delegate(s) require prior approval from the SFC pursuant to paragraph 11.1(b) of the UT Code? Would prior notice be required to be provided to investors regarding these changes?	The SFC adopts a streamlined approach in respect of certain changes in investment delegate(s) of SFC-authorized funds[4]. Under the streamlined approach, prior approval is not required from the SFC under paragraph 11.1(b) of the UT Code in respect of the following types of changes in investment delegate(s)[4], subject to the following applicable requirements being met: *(a) Replacement of existing investment delegate(s)[4] / appointment of new investment delegate(s)[4]* • The new investment delegate(s)[4] is/are currently managing other existing SFC-authorized fund(s); and • Confirmation(s) and undertaking(s) as set out in the "List of Confirmations of Compliance related to Application for Approval of Scheme Change(s) pursuant to 11.1 of the Code of Unit Trusts and Mutual Funds" which are applicable to the change(s) are duly completed and properly executed and submitted to the SFC. *(b) Removal of investment delegate(s)[4]* • The management company[5] confirms that the confirmation(s)/undertaking(s) previously provided remain(s) valid; and • The investment delegate(s)[4] to be removed was/were not appointed and delegated at all times with the investment management functions subject to the authorization conditions imposed by the SFC.

[4] For self-managed scheme, references to the investment delegate(s) are deemed to be references to the delegate(s) of the investment manager of the scheme.

[5] For self-managed scheme, references to the management company are deemed to be references to the board of directors of the scheme.

	Question	Answer
		For the avoidance of doubt, the above streamlined arrangements do not apply to changes in investment delegate(s) which will involve newly proposed all-time investment management delegation arrangements or result in a change in any all-time investment management delegation arrangements currently adopted by the scheme(s). Although the SFC's prior approval is not required under the above streamlined approach, it is generally expected that one month's prior written notice should be provided to investors. The management company is expected to prepare the notice with reference to the content requirements as set out in FAQs 16A – 16D below. As part of the filing of the scheme changes, the management company is required to file the "Filing Form for Notice of Scheme Change(s) falling within 11.B of the Code on Unit Trusts and Mutual Funds and Do Not Require SFC's Prior Approval" together with the duly completed and properly executed confirmation(s) and undertaking(s) as set out in the "List of Confirmations of Compliance related to Application for Approval of Scheme Change(s) pursuant to 11.1 of the Code on Unit Trusts and Mutual Funds" which are applicable to the changes. These changes will be subject to post-vetting by the SFC.
12.	Will authorization be required to be obtained from the SFC prior to the issuance of the revised offering document of an SFC-authorized fund which solely reflects the UCITS CD Amendments referred to in FAQ11 above?	No further authorization of the revised offering document of an existing SFC-authorized fund which is a UCITS is required to be obtained from the SFC to the extent it solely reflects the UCITS CD Amendments. Nevertheless, the above revised offering document should be filed with the SFC pursuant to 11.1B of the UT Code together with a properly completed "Filing Form for Revised Offering Documents that Incorporate Changes Falling within 11.1B of the Code on Unit Trusts and Mutual Funds (UT Code) and Do Not Required SFC's Prior Approval".
12A	Will authorization be required to be obtained from the SFC prior to the issuance of the revised offering document of an SFC-authorized fund which solely reflects the	No further authorization of the revised offering document of an existing SFC-authorized fund is required to be obtained from the SFC to the extent it solely reflects the change(s) of investment delegate(s) referred to in FAQ 11A above. Nevertheless, the above revised offering document should be filed with the SFC

	Question	Answer
	change(s) of investment delegate(s) referred to in FAQ11A above?	pursuant to 11.1B of the UT Code together with a properly completed "Filing Form for Revised Offering Documents that Incorporate Changes Falling within 11.1B of the Code on Unit Trusts and Mutual Funds (UT Code) and Do Not Required SFC's Prior Approval".
13.	Will further authorization be required to be obtained from the SFC prior to the issuance of the revised offering document of an SFC-authorized fund which solely reflects the withdrawal of authorization of an SFC-authorized fund?	Following the withdrawal of authorization of an SFC-authorized fund ("Deauthorized Fund"), the offering document of an existing SFC-authorized fund which contains information of the Deauthorized Fund should be updated as soon as practicable to reflect such deauthorization. No further authorization of the revised offering document of an existing SFC-authorized fund which solely reflects the deauthorization of the Deauthorized Fund is required to be obtained from the SFC. However, the above revised offering document should be filed with the SFC pursuant to 11.1B of the UT Code together with a properly completed "Filing Form for Revised Offering Documents that Incorporate Changes Falling within 11.1B of the Code on Unit Trusts and Mutual Funds (UT Code) and Do Not Required SFC's Prior Approval".
14.	This FAQ is obsolete and has been removed.	
15.	This FAQ is obsolete and has been removed.	
16.	***Revised and moved to FAQ15 under Frequently Asked Questions on Revamped Post Authorization Process of SFC-authorized Unit Trusts and Mutual Funds***	
16A.	Are there any content requirements for the Notice(s)[Note] referred to in Question 15 under Frequently Asked Questions on Revamped Post Authorization Process of SFC-authorized Unit Trusts and Mutual Funds? *(Note: As defined in Question 15 of Frequently Asked Questions on Revamped Post Authorization Process of SFC-authorized Unit Trusts and Mutual Funds.)*	It is the management companies' responsibility to ensure notices to holders are not misleading and contain accurate and adequate information to keep investors informed and to ensure they comply with all applicable legal and regulatory requirements. In preparing the final Notice(s), the management company should take into account the guiding comments (if any) and ensure that they have been properly addressed before distributing the Notice(s). The SFC will continue to conduct post-vetting of Notice(s) filed with us to monitor compliance as well as to see whether the guiding comments have been properly addressed. The SFC takes non-compliance seriously and reserves its right to

	Question	Answer
		take any necessary regulatory actions to ensure that the interests of investors are safeguarded.
16B.	In providing the guiding comments, if any, what would the SFC focus on in reviewing the draft Notice(s) submitted by an applicant mentioned in Question 15 under Frequently Asked Questions on Revamped Post Authorization Process of SFC-authorized Unit Trusts and Mutual Funds?	Below are some illustrative examples of information/disclosure that are expected to be included in Notice(s) regarding 11.1 Scheme Changes. Additional disclosures may be required depending on the particular circumstances of each case. a. Clear description of the salient terms of the proposed 11.1 Scheme Changes, including, if applicable, the following key features and risks of the fund(s): i. The implications on the features and risks applicable to the fund(s). ii. Any proposed changes in the operation and/or manner in which the fund(s) is/are being managed and the effects on existing investors. iii. Any change in the fee level/cost in managing the fund(s) following the implementation of the proposed 11.1 Scheme Changes. iv. Any costs and/or expenses that will be incurred in connection with the proposed 11.1 Scheme Changes and who (e.g. the fund and/or the management company) will bear them. Amount of costs and/or expenses where they will be borne by the fund and/or investors. v. Any matters/impact arising from the proposed 11.1 Scheme Changes that may materially prejudice the existing investors' rights or interests. b. Reasons and rationale of the proposed 11.1 Scheme Changes. c. The publication date of the Notice(s) and the effective date of the proposed 11.1 Scheme Changes, including a clear description of all conditions such as shareholders' and/or regulatory approvals that are required to be fulfilled before the 11.1 Scheme Changes could take effect and the consequence(s) thereof. d. Where applicable, a list of documents and an address in Hong Kong where they can be obtained and/or inspected free of charge or purchased at a reasonable price.

	Question	Answer
		e. If available, website address of the fund(s) which contains publication of the fund(s)' offering documents etc. f. Hong Kong contact (including address and telephone number) for enquiries by investors. g. Applicable warning and responsibility statements, such as a warning statement to the effect that "THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF IN DOUBT, PLEASE SEEK PROFESSIONAL ADVICE" and the responsibility statement that the management company accepts full responsibility for the accuracy of the information contained in the Notice etc. Management companies should include such other information that are necessary for the holders of the SFC-authorized funds to appraise and to comprehend the 11.1 Scheme Changes proposed to be made to the funds.
16B1.	Can the SFC provide some guidance as to the key information or disclosure expected to be set out in the Notice(s) regarding 11.1 Scheme Change(s)?	Illustrative examples of information/disclosure that are expected to be included in Notice(s) regarding 11.1 Scheme Changes are set out in Q.16B above. Set out below are more specific illustrative examples of key information or disclosure expected to be set out in the Notice(s) regarding certain 11.1 Scheme Changes: *(a) Changes in investment objectives, policies and restrictions of the fund* • Clear description of the proposed revised investment objectives, policies and restrictions (e.g. the new types of underlying investment instruments), and the key difference(s) from the existing investment objectives, policies and restrictions. • Implications of the change on the features and the overall risk profile of the fund (e.g. whether the fund and/or investors will be subject to additional risk(s) such as the fund will be more susceptible to the volatility or development of a particular market or industry sector) and where applicable, description of these additional risks and impact on the fund and/or investors. • In the case of revising the extent of the use of financial derivative instruments,

	Question	Answer
		clear description of the intended extent of usage and the consequential impact on the fund and/or investors (where applicable). • Elaboration of any changes in the operation and/or manner in which the fund is being managed and the effects on existing investors. Where there is no change or impact, negative statement is expected to be set out in the Notice(s). *(b) <u>Change in key operator(s) of the fund</u>* • In the case of a new appointment, reason for the new appointment, a clear description of the relationship between the proposed new key operator(s) and the existing key operator(s) where applicable (e.g. whether the newly appointed delegated investment manager is related to the management company), related costs and/or expenses that will be incurred and who will bear them, and any change(s) in the fee level/cost in managing the fund following the new appointment. If any conflicts of interests may result, clear description of why the fund or investors will not be prejudiced. • Where the new appointment or removal of existing key operator(s) will affect the existing authorization condition granted by the SFC or the home regulator, clear description of the impact and the related arrangement (e.g. the management company will at all time delegate the investment management function to the newly appointed investment delegate possessing the relevant qualification). *(c) <u>Change in dealing or pricing arrangement of the fund</u>* • Clear description of the proposed new dealing or pricing arrangement, how the new arrangement will apply (e.g. only applicable to certain sub-fund(s) or share class(es)), reason for adopting the new arrangement, the key difference(s) from the existing arrangement, any impact on the processing, valuation or settlement timeline for subscription, switching and redemption, any impact on the fund or existing investors and whether the fund or existing investors will be prejudiced, otherwise a negative statement is expected to be set out in the Notice(s). In addition, fund managers should ensure the new dealing/pricing arrangement will not affect the fund's strict compliance with the principle of forward pricing and fair valuation.

	Question	Answer
		• Where the dealing of the fund will be suspended for the purpose of implementing the new dealing or pricing arrangement, clear description of the details including the suspension period, the arrangement in handling the subscription, switching and redemption requests submitted before and after the cut-off date applicable to the suspension, commencing date to use the new dealing or pricing arrangement etc. to ensure that fair and equitable treatment to all investors. • In the case of imposition of anti-dilution practice, clear description of the anti-dilution mechanism to be put in place (e.g. anti-dilution levy, swing pricing), how such mechanism works (e.g. the adjustment that will apply to the subscribing and redeeming investors), the circumstance(s) upon which the application of the anti-dilution mechanism will be triggered, the maximum limit of the anti-dilution adjustment (e.g. maximum level of the anti-dilution levy, redemption gate or swing factor), impact on the fund or existing investors in the fund. • Illustrative examples may be set out in the Notice(s) to facilitate investors to understand the mechanism or how the new / revised dealing arrangement, pricing arrangement or charging basis of the fees (e.g. performance fees) will apply. *(d) <u>Introduction of new fees and charges or increase in fees and charges payable out of scheme property or by the investors</u>* • In the case of a fee increase beyond the permitted maximum level as disclosure in the Hong Kong Offering Documents, the new fee level; and where the fee forms part of the calculation of the ongoing charges figure (e.g. management fee), impact on the ongoing charges figure of the fund/share class (as the case may be), together with the ongoing charges figure6 as a result of such fee increase and its calculation basis (including the reference date if applicable).

[6] Such ongoing charges figure shall be calculated in accordance with the basis set out in the Circular to Management Companies of SFC-authorized Funds entitled "Disclosure of ongoing charges figure and past performance information in the Product Key Facts Statements" revised as of 3 March 2017 (as amended from time to time).

	Question	Answer
		• Where a new type of fee is imposed, clear description of the reason for such imposition, the basis of levying the fee (e.g. expressed as a percentage of the net asset value of the fund, whether subject to any minimum or maximum level of fee) and the party(ies) receiving the new type of fee, impact on the ongoing charges figure of the fund/share class (as the case may be), together with the ongoing charges figure6 as a result of such change and its calculation basis (including the reference date if applicable). The above is not an exhaustive list of examples and management companies should consider to include such other information that are necessary for the holders of the SFC-authorized funds to fully understand the 11.1 Scheme Change proposed to be made to the funds for the purpose of appraising the position of the funds.
16C.	Will fund managers be required to include a statement in Notice(s) confirming that the proposed 11.1 Scheme Change(s) is/are in the best interest of the holders ("Best Interest Confirmation")?	Pursuant to 5.10(a) of the UT Code, management companies must manage their funds in accordance with the funds' constitutive documents in the best interest of the holders. In general, fund managers are not required to include the Best Interest Confirmation in the Notice(s) in respect of proposed 11.1 Scheme Change(s), especially in view of the fact that it is a general obligation of management company in the UT Code. However, the SFC reserves its power and discretion to raise requisitions where appropriate depending on specific circumstances of each case. For example, where it is not apparent to the SFC or where SFC has concerns as to whether a proposed 11.1 Scheme Change is in the best interest of holders as required by 5.10(a) of the UT Code. In such case, a Best Interest Confirmation may be required to be explicitly disclosed in the Notice(s).
16D.	Is it a requirement that fund managers must offer free redemption/switching to holders in respect of all proposed 11.1 Scheme Changes?	It is clearly stated under 11.4 and 11.5 of the UT Code that the alternatives available to investors (including, if possible, a right to switch without charge into another SFC-authorized fund) should be included in the notices to holders in respect of a merger, termination and/or withdrawal of authorization of an SFC-authorized fund. As such, fund managers are expected to make available, to the extent possible, free redemption/switching as alternatives to holders under these

	Question	Answer
		circumstances. In general, fund managers would not be required to offer free redemption / switching to holders in respect of all proposed 11.1 Scheme Changes. However, the SFC reserves its power to do so where it deems appropriate for safeguarding investor interest on a case-by-case basis, taking into account the specific facts and circumstances of each case. Fund managers may, however, out of their own initiatives offer free redemption/switching to investors when they are effecting proposed 11.1 Scheme Changes.
16E.	Under what circumstance(s) may fund managers shorten the written notice period to investors for 11.1 Scheme Changes?	Normally, one month's prior written notice is expected to be provided to investors for 11.1 Scheme Changes, whereas a shorter notice period may be permitted where the proposed scheme changes are of demonstrable benefit to investors as provided under Note (2) to 11.2 of the UT Code or otherwise agreed by the SFC. A shorter notice period is acceptable for 11.1 Scheme Changes if the fund manager has obtained written consent from all of the fund's investors. In case of doubt, early consultation with the SFC is encouraged.
17.	A management company is required to have two key personnel as required under 5.5 of the UT Code. What should the management company do if there is any change to the key personnel after the fund is authorized by the SFC?	Management companies are required to comply with 5.5 of the UT Code at all times, including the key personnel requirement. Under 4.1(c) of the Overarching Principles Section of the Handbook, the management company shall inform the SFC promptly should there be any material breach of the Handbook. Accordingly, if there is any change or proposed change to the key personnel subsequent to authorization of the fund (e.g. resignation or departure or relocation of key personnel for a fund for any reason) which may result in non-compliance with 5.5 of the UT Code, the management company should inform the SFC as soon as practicable. A management company is strongly encouraged to inform the SFC as early as possible, e.g. after it has received the resignation notice of the relevant key personnel. In addition, the management company is expected to rectify the situation without

	Question	Answer
		delay. Depending on the situation, the management company may be required by the SFC to cease marketing and offering the SFC-authorized funds concerned to the public and to cease accepting subscriptions from new investors, pending rectification of the issue to the SFC's satisfaction. The SFC takes non-compliance seriously and reserves its rights to take any necessary regulatory actions to ensure that the interests of investors are safeguarded. In case of doubt, early consultation with the SFC is encouraged.
18.	How are SFC-authorized unlisted index funds which are no longer marketed to the public of Hong Kong expected to comply with the requirements set out in the Circular to Management Companies of SFC-authorized Exchange Traded Funds and Unlisted Index Funds dated 4 July 2014 entitled "Disclosure of Tracking Difference and Tracking Error" (the "TE/TD Circular")?	For unlisted index funds which are authorized in accordance with the UT Code but are no longer marketed to the public of Hong Kong, if the updated tracking difference is not reflected in the KFS pursuant to the TE/TD Circular, such information should be made available to investors upon request.
19.	What are the disclosure and approval requirements for an existing SFC-authorized fund which intends to invest in the Mainland market through the Northbound Shanghai Trading Link[7] and the Northbound Shenzhen Trading Link under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect[8] (collectively, "Stock Connect") respectively[9]?	Where an existing SFC-authorized fund intends to invest through Stock Connect, the following principles apply: • the fund's proposed investments via Stock Connect must be consistent with and within the existing investment objectives and strategy of that fund as disclosed in its offering documents; • the fund manager must ensure at all times that the disclosures in the offering documents (including the KFS) are true, accurate, complete, not misleading and updated in a timely manner to include all information that is necessary for

[7] The "Northbound Shanghai Trading Link" and "Northbound Shenzhen Trading Link" are defined in the joint announcement of the China Securities Regulatory Commission (CSRC) and the SFC dated 16 August 2016.

[8] The "Shanghai-Hong Kong Stock Connect" and "Shenzhen-Hong Kong Stock Connect", as defined in the joint announcements of the CSRC and the SFC dated 10 April 2014 and 16 August 2016 respectively, are pilot programmes for establishing mutual stock market access between Mainland China and Hong Kong.

	Question	Answer
		investors to appraise their investments in the funds; and • all other applicable requirements under the SFC Handbook including the UT Code and other relevant laws and regulations must be complied with at all times. Subject to compliance with the above principles, we would like to give the following general guidance to the industry: *Substantial investment in A shares (ie, 30% or more of the fund's NAV)* a. Where an existing SFC-authorized fund's investment objective or policy already includes substantial (ie, 30% or more of its NAV) investment in the Mainland A share market[10]: in general, no prior SFC approval is required under paragraph 11.1 of the UT Code for any proposed use of Stock Connect (whether through the Shanghai-Hong Kong link, the Shenzhen-Hong Kong link, or a combination of both). In this case: ➢ the management company could consider using Stock Connect as a means to access the Mainland A share market to be a change which falls within paragraph 11.1B of the UT Code if the Overriding Requirements as set out in FAQ 9 above are satisfied. The fund manager is expected to inform existing investors of the fund as soon as reasonably practicable pursuant to paragraph 11.2 of the UT Code; ➢ the management company should update the fund's offering documents (including the KFS) regarding its intended proportion of investments via Stock Connect as well as any additional key risks associated with Stock Connect; and ➢ the updated offering documents should be filed with the SFC in

[9] Where an SFC-authorized fund invests in the Mainland A share market through Stock Connect or other means, it should take note of the disclosure requirements in this FAQ.

[10] Whether the investment is currently done through one or a combination of the following means: QI status, Stock Connect, or A share market access products. In general, if an SFC-authorized fund intends to invest 30% or more of its NAV in any combination of (on an aggregate basis or with respect to each type of investment individually) shares listed on boards with generally lower listing eligibility criteria than main boards (eg, the ChiNext Board or the Science and Technology Innovation Board), such exposure and the associated risk(s) are expected to be disclosed in the sections headed "Objectives and investment strategy" and "What are the key risks?" of the KFS respectively.

	Question	Answer
		accordance with paragraph 11.1B of the UT Code. b. Where an existing SFC-authorized fund's investment objective or policy does not cover substantial investment in the Mainland A share market, for example, it invests mainly in US or European equities or is a bond fund, any proposed scheme changes by the fund to make substantial (ie, 30% or more) investment in the Mainland A share market, whether through Stock Connect or other means, will be subject to the SFC's prior approval under paragraph 11.1 of the UT Code. Normally, one month's prior notice is expected to be given to investors before such scheme changes take effect pursuant to paragraph 11.2 of the UT Code. *Ancillary investment in A shares (ie, more than 10% but less than 30% of the fund's NAV)* c. Where an existing SFC-authorized fund proposes to make ancillary investment (ie, more than 10% but less than 30% of its NAV) in the Mainland A share market, whether through Stock Connect or any other means: in general, no prior SFC approval is required under paragraph 11.1 of the UT Code. However, management companies are reminded that: ➢ they should ensure the relevant fund's offering documents are up-to-date containing all relevant disclosures and any additional risks associated with the use of Stock Connect; ➢ any updated offering documents should be filed with the SFC in accordance with paragraph 11.1B of the UT Code, which will be subject to post-vetting by the SFC; and ➢ existing investors of the fund should be informed as soon as reasonably practicable pursuant to paragraph 11.2 of the UT Code regarding any scheme changes relating to the fund's ancillary investment in the Mainland A share market. *Minimal investment in A shares (ie, not more than 10% of the fund's NAV)* d. Where an existing SFC-authorized fund's proposed investment in the Mainland A share market via Stock Connect is minimal (ie, not more than 10% of its NAV): in general, no prior SFC approval is required under

	Question	Answer
		paragraph 11.1 of the UT Code. Management companies must, however, review the disclosures contained in the relevant fund's offering documents and exercise professional judgement to determine whether any enhanced disclosures and/or clarifications are required to be made to the offering documents. Any updated offering documents should be filed with the SFC in accordance with paragraph 11.1B of the UT Code.
20.	What are the disclosure and approval requirements for an existing SFC-authorized fund which intends to invest in the Mainland debt securities market through CIBM Direct[11] and/or Bond Connect[12]?	Where an existing SFC-authorized fund intends to invest via CIBM Direct and/or Bond Connect, the following principles apply: • the fund's proposed investments via CIBM Direct and/or Bond Connect must be consistent with and within the existing investment objectives and strategy of that fund as disclosed in its offering documents; • the management company must ensure at all times that the disclosures in the offering documents (including the KFS) are true, accurate, complete, not misleading and updated in a timely manner to include all information that is necessary for investors to appraise their investments in the funds; and • all other applicable requirements under the SFC Handbook including the UT Code and other relevant laws and regulations must be complied with at all times. In particular, the management company must always ensure that proper custodian arrangements are put in place on the Mainland for the safe custody and segregation of the fund's assets with respect to the fund's investment in the Mainland securities market (whether through CIBM Direct or Bond Connect). • where the fund invests primarily13 in the Mainland securities market, whether through its QI14 status or via CIBM Direct, the Hong Kong offering documents

[11] In February 2016, the People's Bank of China (PBoC) announced the opening-up of Mainland China's Interbank Bond Market (CIBM) to a wider group of eligible foreign institutional investors free of quota restrictions via CIBM Direct scheme (CIBM Direct).
[12] As defined in the joint announcement of the PBoC and the Hong Kong Monetary Authority dated 16 May 2017, "Bond Connect" is an arrangement that establishes mutual bond market access between Hong Kong and Mainland China. Overseas investors can invest in CIBM through northbound trading of Bond Connect.
[13] For funds primarily regulated by the SFC, this means 70% or more of the fund's NAV. For UCITS funds, this means at least two-thirds of the fund's NAV, which is generally understood to be the minimum investment threshold for primary investment.

	Question	Answer
		of the fund should include the trustee's arrangements related to safe custody and segregation of the fund's assets with respect to such investment. Subject to compliance with the above principles, we would like to give the following general guidance to the industry: *Substantial investment in the Mainland debt securities market (ie, 30% or more of the fund's NAV)* a. Where an existing SFC-authorized fund's investment objective or policy includes substantial (ie, 30% or more of its NAV) investment in the Mainland debt securities market, whether or not the investment is currently done through its QI status: in general, no prior SFC approval is required under paragraph 11.1 of the UT Code for any proposed use of CIBM Direct and/or Bond Connect. In this case: ➢ the management company could consider using CIBM Direct and/or Bond Connect as a means to access the Mainland debt securities market to be a change which falls under paragraph 11.1B of the UT Code if the Overriding Requirements as set out in FAQ 9 above are satisfied. The management company is expected to inform the fund's existing investors as soon as reasonably practicable pursuant to paragraph 11.2 of the UT Code; ➢ the management company should update the fund's offering documents (including the KFS) regarding its intended proportion of investments via CIBM Direct and/or Bond Connect as well as any additional key risks associated with CIBM Direct and/or Bond Connect; and ➢ the updated offering documents should be filed with the SFC in accordance with paragraph 11.1B of the UT Code. b. Where an existing SFC-authorized fund's investment objective or policy does not cover substantial investment in the Mainland debt securities market, for

[14] Qualified Investors, or "QI", refer to qualified foreign institutional investors who have been approved by the Mainland authority to invest in the Mainland securities and futures markets.

	Question	Answer
		example, it invests mainly in US or European debt securities or is an equity fund, any proposed scheme changes by the fund to make substantial (ie, 30% or more of its NAV) investment in the Mainland debt securities market, whether through CIBM Direct, Bond Connect or other means, will be subject to the SFC's prior approval under paragraph 11.1 of the UT Code. Normally, one month's prior notice is expected to be given to investors before such scheme changes take effect pursuant to paragraph 11.2 of the UT Code. *Ancillary investment in the Mainland debt securities market (ie, more than 10% but less than 30% of the fund's NAV)* c. Where an existing SFC-authorized fund proposes to make ancillary investment (ie, more than 10% but less than 30% of its NAV) in the Mainland debt securities market, whether through CIBM Direct, Bond Connect or any other means: in general, no prior SFC approval is required under paragraph 11.1 of the UT Code. However, management companies are reminded that: ➢ they should ensure the relevant fund's offering documents are up-to-date, containing all relevant disclosures and any additional risks associated with the use of CIBM Direct and/or Bond Connect; ➢ any updated offering documents should be filed with the SFC in accordance with paragraph 11.1B of the UT Code which will be subject to post-vetting by the SFC; and ➢ existing investors of the fund should be informed as soon as reasonably practicable pursuant to paragraph 11.2 of the UT Code regarding any scheme changes relating to the fund's ancillary investment in the Mainland debt securities market. *Minimal investment in the Mainland debt securities market (ie, not more than 10% of the fund's NAV)* d. Where an existing SFC-authorized fund's proposed investment in the Mainland debt securities market, whether through CIBM Direct, Bond Connect or any other means, is minimal (ie, not more than 10% of its NAV): in general, no prior SFC approval is required under paragraph 11.1 of the UT Code. Management companies must, however, review the disclosures contained in the relevant fund's offering documents and exercise professional judgement

	Question	Answer
		to determine whether any enhanced disclosures and/or clarifications are required to be made to the offering documents. Any updated offering documents should be filed with the SFC in accordance with paragraph 11.1B of the UT Code.
21.	Are the applicants required to file a soft copy of the issued offering documents to the SFC?	Yes. To enable the SFC to post the offering documents of the SFC-authorized funds onto the information repository at the "List of Investment Products" on the SFC website, a soft copy of the authorized offering documents shall be filed with the SFC within one week after issuance. The authorized offering documents and the document file name shall be saved in the format as set out in the SFC's authorization letter and shall be text-searchable and virus free. Applicants may submit the authorized offering documents by way of e-mail to their case officer(s) of the Investment Products Division who is responsible for overseeing the relevant fund group.
22.	Is there any requirement for the management company to notify holders if a fund no longer intends to maintain its status as an eligible collective investment scheme under the Capital Investment Entrant Scheme Note ("CIES") (referred to as "Eligible CIS status")? (Note: This refers to the Capital Investment Entrant Scheme suspended by the Government with effect from 15 January 2015.)	Management companies are reminded of their duty under 11.1B and 11.2 of the UT Code to inform holders as soon as reasonably practicable of any information concerning a fund which is necessary to enable holders to appraise the position of the fund. Where a fund proposes to remove its Eligible CIS status, whilst such proposed change will not require the SFC's prior approval, management companies are expected to comply with 11.1B and 11.2 of the UT Code by providing at least one month's prior written notice to relevant holders (including those who are capital investment entrants under CIES and issuers of SFC-authorized ILAS which are eligible CIS under CIES with the fund as their underlying or reference fund (the "CIES Investors")) in respect of such change. In light of 7.1 of the Overarching Principles Section of the SFC Handbook, management companies are expected to take reasonable steps to ensure effective measures are in place for timely dissemination of the notice to holders (including through notifying relevant distributors of the proposed change if circumstances require). Management companies are expected to disclose in the notice key information

	Question	Answer
		including: • the reason for the proposed change; • the effective date of the fund ceasing to be an eligible CIS under CIES; • the implications on the CIES Investors; • alternative(s) available to the CIES Investors (for example, free redemption or, if possible, free switching into another eligible CIS managed by the same fund group); • reminder to seek professional advice; and • such other information that is necessary for the investors to fully comprehend the change proposed to be made to the fund for the purpose of appraising the position of the fund and their investment. The notice should be filed with the SFC within one week from the date of issuance, together with a properly completed "Filing Form for Notice of Scheme Change(s) falling within 11.1B of the Code on Unit Trusts and Mutual Funds and Do Not Require SFC's Prior Approval". Management companies are also reminded to observe the relevant notification requirement of the Immigration Department in respect of the above change as issued and updated by the Immigration Department from time to time.
Electronic dissemination of fund documents		
23.	Can an SFC-authorized fund disseminate product documents to investors electronically?	The SFC has issued a circular entitled "Circular on the electronic dissemination of investment product documents" dated 29 September 2020 ("ED Circular"), which sets out, among other things, the general principles for issuers of SFC-authorized funds to disseminate product documents electronically ("E-Dissemination Arrangement"). Capitalized terms used in FAQs 24 to 28 have the same meaning as those defined in the ED Circular.
24.	Do changes to the constitutive documents of an existing SFC-authorized fund which are made solely to enable E-Dissemination	Where changes to the constitutive documents of an existing SFC-authorized fund are required to be made solely to enable the E-Dissemination Arrangement, SFC's prior approval will not be required.

	Question	Answer
	Arrangement require prior approval from the SFC pursuant to 11.1(a) of the UT Code?	Advance written notice must be provided to investors before the proposed changes to constitutive documents of the relevant SFC-authorized fund take effect. At least one month's advance written notice is expected. The advance written notice should provide necessary information to enable investors to appraise the proposed changes and to make an informed judgement of their investments in the fund. For example, the advance notice should inform investors of the proposed changes to constitutive documents and when the E-Dissemination Arrangement may take effect. If no specific date for rollout of the E-Dissemination Arrangement has been decided yet, the notice should inform investors of this and that separate advance notice will be provided to investors prior to the adoption of the E-Dissemination Arrangement. Where applicable, the Transition Notice (see FAQ 26 below) can be merged with the above notice provided that all the required information is clearly set out, including the effective date(s) of the proposed changes to the constitutive documents and adoption of the E-Dissemination Arrangement for the fund.
25.	For an SFC-authorized fund which is currently disseminating paper Product Documents to investors, does it need to seek SFC's prior approval to adopt E-Dissemination Arrangement in respect of the fund?	No prior approval is required to be obtained from the SFC for an SFC-authorized fund to implement E-Dissemination Arrangement. However, before adopting E-Dissemination Arrangement, the management company of an SFC-authorized fund must ensure that the E-Dissemination Arrangement and the transitional arrangement (including a printed Transition Notice to investors) comply with the fund's constitutive documents and applicable regulatory requirements (e.g. for a UCITS fund, its home regulations and requirements). Paragraphs 8-10 of the ED Circular set out guidelines for the transitional arrangements.
26.	What information is required to be included in the Transition Notice?	Paragraph 9 of the ED Circular sets out the guiding principles for the Transition Notice. Each management company should ensure that the Transition Notice contains information which is necessary to enable investors to understand the E-Dissemination Arrangement, how it might affect their rights or interests as

	Question	Answer
		investors of the relevant SFC-authorized funds and the procedures for investors who wish to change the means of delivery. The following information should be included in the Transition Notice: (a) Relevant details of the E-Dissemination Arrangement - the precise manner in which Product Documents will be disseminated electronically to investors, with clear specification of the electronic means to be adopted (e.g. whether the electronic Product Documents will be sent to investors by email, or investors will receive notification by SMS informing them that the Product Documents are accessible online and the particular website/platform where the electronic Product Documents can be accessed, etc.); (b) Implications of the E-Dissemination Arrangement for investors - the effective date of adoption of the E-Dissemination Arrangement, and where applicable, the date on which paper Product Documents will cease to be provided unless otherwise requested by investors; - where applicable, appropriate hardware and software, internet access, a specific email address, mobile phone number or other electronic address of the investors will be required for receiving email, SMS or other electronic notifications from the management company or accessing Product Documents under the E-Dissemination Arrangement; - the applicable risks associated with the E-Dissemination Arrangement, and a statement reminding investors to save or print a copy of the Product Documents for future reference if necessary; and - investors may change the means of delivery at any time subject to reasonable prior notice; (c) Fee charging arrangement for provision of Product Documents - a statement to the effect that the investors are entitled to receive Product Documents free of charge in one means of their choice (ie, an investor may choose to receive Product Documents either in paper form or via an

	Question	Answer
		electronic means specified by the management company); and - if any charges are to be imposed for the provision of Product Documents to investors, the amount of such charges (which should be fair and reasonable); (d) The procedures for investors who wish to change the means of delivery after adoption of the E-Dissemination Arrangement including details on how investors can request for the change; (e) Where applicable, clear and prominent warning statements: - to alert investors that they will no longer receive product information in the form of paper documents after the effective date of the E-Dissemination Arrangement; and - specifying any action required from investors if they wish to continue to receive paper Product Documents (including how they can make the request and any time deadline for such request); and (f) Hong Kong contact details for enquiries relating to the E-Dissemination Arrangement (including address and telephone number).
27.	Paragraph 11.6 of the UT Code provides that as an alternative to the distribution of printed financial reports, holders may be notified of where such reports, in printed and electronic forms, can be obtained within the relevant time frame (Financial Reports Notification). Can an SFC-authorized fund which is currently using the Financial Reports Notification arrangement continue to distribute its financial reports to holders in such manner?	An SFC-authorized fund may continue to distribute its financial reports to holders under its current Financial Reports Notification arrangement in accordance with paragraph 11.6 of the UT Code. If an SFC-authorized fund wishes to adopt an E-Dissemination Arrangement, whereby the holders will no longer receive paper notification (or paper financial reports) unless requested by them, the fund should observe the ED Circular and the applicable guidance (including the Transition Notice to holders) set out in FAQs 23 to 26 above. Thereafter, upon publication of its financial reports, the fund should notify holders electronically of where such reports, in printed and electronic forms, can be obtained within the relevant timeframe under paragraph 11.6 of the UT Code. Where the SFC-authorized fund's offering documents have already disclosed the means and the timeframe for investors to obtain the fund's financial reports, no

	Question	Answer
		separate notification will be required upon the publication of financial reports, unless the means and/or timeframe of the financial reports differ from that disclosed in the offering documents. If the fund's offering documents have to be revised to reflect that no specific notification will be provided upon the publication of financial reports, the SFC's prior approval is not required, but prior written notification (generally of one month) should be provided to investors.
28.	Does the ED Circular apply to SFC-authorized funds that are already disseminating the Product Documents to investors electronically ("Relevant Funds") as of the date of the ED Circular?	The transitional arrangements set out under paragraphs 8-10 of the ED Circular do not apply to the Relevant Funds. However, the Relevant Funds are subject to the general principles in paragraphs 11-13 of the ED Circular which apply to all E-Dissemination Arrangements.

Section 3 – Novel coronavirus (COVID-19)

	Question	Answer
1.	Due to the extreme market volatility and uncertainty in local and international markets relating to the COVID-19 outbreak, can fund managers increase the swing factor to be applied on the net asset value (NAV) of their SFC-authorized funds beyond the maximum swing factor as disclosed in the funds' offering documents? Will such increase require prior SFC approval?	In view of the potential impact on, among others, the volatility and liquidity of the underlying invested assets of the SFC-authorized funds relating to the COVID-19 outbreak, fund managers should ensure that all assets of their funds are fairly and accurately valued and liquidity risk management tools (such as swing pricing or anti-dilution levy) are used appropriately. Fund managers must ensure fair treatment to all investors including redeeming investors and those remaining in the funds. Given the exceptional market circumstances, it is important that fund managers are sufficiently agile to respond to extreme market situations so that the funds can be managed in the best interests of investors. Fund managers may increase the swing factor beyond the maximum level that has been set out in the funds' offering documents as a temporary measure, without SFC's prior approval subject to the following conditions: (i) the decision to revise the swing factor under the fund's swing pricing mechanism must be duly justified (including a robust methodology that provides an accurate NAV which is representative of the prevailing market conditions) and is in the best interests of investors, following a robust internal governance process supported by proper records/documentations; (ii) the fund managers/the fund must notify existing and new investors (and, to the extent applicable, properly inform distributors of the fund) that a swing factor which exceeds the limit disclosed in the offering document may be used before applying the revised swing factor; (iii) the fund managers must be able to demonstrate and justify that the swing factor applied at any time was representative of the prevailing market conditions and was in the best interests of investors; and (iv) the revision and use of revised swing factor is permitted under the fund's constitutive documents, and complies with the applicable laws

	Question	Answer
		and regulatory requirements imposed by their home regulators. To enable fund managers to apply the increased swing factor as efficiently as possible, fund managers may notify investors through the fund's website and/or through the fund's usual communication channels, and apply the revised swing factor with immediate effect (provided that the above conditions are met). Fund managers are required to give the SFC early alerts of any material issues affecting their SFC-authorized funds. As such, they must inform the SFC of the above as soon as practicable if they intend to increase or apply the swing factor exceeding the one that is disclosed in the offering documents. Notification to investors shall also be filed with the SFC. SFC may ask the fund managers to justify on an ex-post basis the level of the swing factor applied and to provide documentary evidence in relation to (iii). This FAQ will also apply to anti-dilution levy in a similar manner.
2.	Can an SFC-authorized fund apply swing pricing mechanism under the proposed temporary measure in FAQ 1 above, if it has not disclosed in the offering document that swing pricing may be used?	The temporary measure applies to funds which have already disclosed the use of swing pricing mechanism as a liquidity risk management tool in their offering documents. Funds which do not have such disclosure in their offering documents but which might wish to use swing pricing will be dealt with on a case by case basis. The SFC will need to better understand, among others, the circumstances as to why they need to apply swing pricing given that their offering documents have not disclosed this as well as other matters such as whether they are permitted to do so under relevant governing laws and constitutive documents and by their home regulators. Given the current market conditions, fund managers are urged to make proper assessment to ensure that investors' interests will not be prejudiced and investors are treated fairly at all times. Fund managers are strongly encouraged to consult the SFC if in doubt.

	Question	Answer
		This FAQ will also apply to anti-dilution levy in a similar manner.
3.	This FAQ has been removed.	Please refer to Question 22 of Frequently Asked Questions on Revamped Post Authorization Process of SFC-authorized Unit Trusts and Mutual Funds.

Last updated: 22 December 2023